

**BEFORE THE  
PUBLIC SERVICE COMMISSION  
OF SOUTH CAROLINA**

**DOCKET NO. 2013-275-WS**

**In the Matter of:**

**Application of Carolina Water Service,  
Inc. for Adjustment of Rates and  
Charges and Modification of Certain  
Terms and Conditions for the Provision  
of Water and Sewer Service**

**DIRECT TESTIMONY**

**OF**

**RICHARD J. DURHAM**

**Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS  
ADDRESS.**

A. My name is Richard J. Durham. I am the Regional Vice President of Operations for Utilities, Inc. ("UI") and its subsidiaries including Carolina Water Service, Inc. ("CWS"). My business address is 200 Weathersfield Avenue, Altamonte Springs, Florida 32714.

**Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?**

A. In my current position, I am responsible for directing the safe, efficient and economical operation of the Southeast, South, and West Regions assets. My duties and responsibilities include the following:

- Economic performance of operating subsidiaries within the West, South, and Southeast Regions,
- Lead operations team to be in compliance with all applicable local, state and federal regulations,
- Maintain assets in good operating condition,
- Developing capital plan to meet customer growth and adherence to that plan,

- 1       ▪   Margin review analysis to ensure efficient operations,
- 2       ▪   Stewardship of legal issues and cases,
- 3       ▪   Foster and ensure safe work environment,
- 4       ▪   New business development,
- 5       ▪   Manage relationships with the community,
- 6       ▪   Manage and provide leadership for staff,
- 7       ▪   Provide information to national headquarters and manage management's
- 8       expectations, and
- 9
- 10      ▪   Stay abreast of local environment and upcoming regulations.
- 11

12               Most recently, I have been tasked to focus my attention and energy on matters  
13 affecting Utilities, Inc.'s water and wastewater systems in South Carolina including Carolina  
14 Water Service, Inc.

15   **Q.     WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

16   A.     I have over 30 years of experience in the utility industry. Twelve years of my career has  
17 been devoted to the regulatory field and approximately twenty years working in the private  
18 sector in utility management and operations. As a regulator I worked for the North Carolina  
19 Division of Environmental Health ("DEH"). I was the former State Drinking Water  
20 Administrator, Section Chief of the Public Water Supply Section of DEH, responsible for the  
21 implementation and enforcement of both the state and federal drinking water regulations in  
22 North Carolina. I also worked for 6 years as a Utilities Engineer with the North Carolina  
23 Utilities Commission-Public Staff representing the using and consuming public in water,  
24 wastewater, and electric proceedings before the Commission. I have a Bachelor's Degree in  
25 Civil Engineering from North Carolina State University and I am registered in North Carolina as

1 a Professional Engineer. I am currently the Regional Vice President of Operations for UI's  
2 Southeast, South, and West regions consisting of 6 states and I have been with the Company for  
3 approximately 7 years.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 **A.** The purpose of my testimony is to sponsor Carolina Water Services, Inc.'s application for  
6 an adjustment of certain rates and charges for the provision of water and sewer services.

7 **Q. WHY IS CWS REQUESTING RATE RELIEF AT THIS TIME?**

8 **A.** With our increase in operating expenses and additional plant investments we have made  
9 since the last rate case, we are unable to earn our authorized rate of return.

10 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

11 **A.** The Rate Case Application includes the financial statements for CWS. The subsections  
12 are as follows:

13 Schedule A – Balance Sheet

14 Schedule B – Income Statement

15 Schedule C – Rate Base and Rate of Return

16 Schedule D – Test Year / Present Revenues

17 Schedule E – Proposed Revenues

18 Schedule F – Current and Projected Customers

19 Schedule G – Effect of Proposed Rates

20 Also, included are the most recent letters from DHEC, a sample customer bill form and  
21 the Company's most recent Gross Receipts Tax filing. The test year chosen is the year ended

December 31, 2012, which was the twelve-month period of the Company's most recent fiscal year available at the time of the Company's filing.

**Q. PLEASE EXPLAIN HOW TEST YEAR EXPENSES WERE ADJUSTED.**

A. Pro forma adjustments were made to the test year expenses based on known and measurable changes to actual expenses.

**Q. WHAT ARE THE KNOWN AND MEASURABLE PRO FORMA ADJUSTMENTS MADE TO THE INCOME STATEMENT SCHEDULE B?**

A. The following adjustments have been made to the income statement:

- Revenues are annualized at proposed rates using the average test year customers;
- Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to pro forma proposed revenues;
- Salaries, Wages and Benefits are adjusted to annualize;
- Regulatory Commission Expense has been adjusted to reflect the cost of the appeal costs from Docket No. 2011-47-WS, over a three-year period. Current rate case costs have also been amortized over 3 years;
- Depreciation and Amortization Expense are annualized. Depreciation expense represents gross depreciable plant at the end of the year plus pro forma projects multiplied by their respective depreciation rates;
- Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission Taxes, and Gross Receipts Taxes;
- Income Taxes are computed on taxable income at current rates;
- AFUDC is eliminated for rate making purposes;

- Interest on debt is computed using a 52.44%/47.56% debt/equity ratio and a 6.60% cost of debt; and;
- Transportation and depreciation expense for vehicles follow the same allocation methodology as the driver of the vehicle; in other words, the transportation and vehicles costs are allocated to the same systems as the driver of the vehicle;
- Operating expense charged to plant has been adjusted for projected increases in salaries, taxes, and benefits for operators.

**Q. WHAT ARE THE PRO FORMA ADJUSTMENTS MADE TO THE RATE BASE STATEMENT (SCHEDULE C)?**

A. The following adjustments have been made to rate base:

- Plant in Service to reflect adjusted vehicles;
- Accumulated depreciation and depreciable assets at 1.5%
- Cash working capital;
- Pro forma adjustments for actual and estimated plant in service additions, some of the drivers for the increase in UPIS rate base are:
  - Radium treatment solutions
  - New water storage tanks
  - Upgrades to the wastewater treatment plants.

**Q. HOW DOES THE COMPANY PLAN ON RECOVERING PRUDENTLY INCURRED RATE CASE EXPENSE?**

A. Rate case expenses include attorney's fees, expert witness fees, capitalized staff time of Company employees, and out-of-pocket expenses incurred in bringing a rate case. There are two

1 components of the rate case expenses sought in this case. The first component is the  
2 unrecovered balance of rate case expense from Docket No. 2011-47-WS. These expenses  
3 include the costs incurred after the ORS audit cutoff date in the above docket, the costs and  
4 expenses incurred in CWS's appeal of the order in that docket to the South Carolina Supreme  
5 Court, and the costs and the estimated expenses that will be incurred by CWS on remand to the  
6 Commission. CWS is recommending that total of these costs, \$386,695.00, be amortized over  
7 three years. See Application, Exhibit B, Schedule B.

8 **Q. WHAT IS THE RESULT IF THESE COSTS ARE EXCLUDED IN THE**  
9 **COMPANY'S REVENUE REQUIREMENT?**

10 A. The Company would never earn its authorized return.

11 **Q. HOW DOES THE COMPANY PLAN TO SEEK RECOVERY OF THOSE RATE**  
12 **CASE EXPENSES THAT ARE INCURRED AFTER THE ORS' AUDIT CUTOFF DATE.**

13 A. CWS will continue to update its rate case expenses after the ORS's audit cut-off deadline,  
14 and will provide the ORS with periodic updates. CWS will also make a filing of supplemental  
15 rate case expenses with the Commission prior to the final hearing in this matter, and will seek  
16 leave to further update its expenses after the conclusion of the hearing. CWS will ask the  
17 Commission to allow recovery of the supplemented expenses.

18 **Q. ARE THERE ANY IMPORTANT ISSUES FACING THE WATER INDUSTRY**  
19 **THAT YOU WOULD LIKE TO ADDRESS?**

20 A. Yes, arguably one of the most important issues for the industry today is a regulated water  
21 company's reasonable ability to earn its authorized rate of return. Because of its relatively junior  
22 size as compared to its gas and electric colleagues, the water industry has not enjoyed some of

1 the same progressive rate mechanisms as its counterparts. As a result, water companies struggle  
2 to have even an opportunity to near their authorized ROE, and the US water industry is laser  
3 focused on resolving this problem.

4 **Q. HOW DOES NAWC AND NARUC ADDRESS THE ISSUE OF WATER**  
5 **COMPANIES NOT EARNING NEAR THEIR AUTHORIZED ROE?**

6 A. Recognizing the problem of reduced earnings and that the regulated compact for water  
7 companies was broken the NAWC, sponsored a Resolution Addressing Gap Between Authorized  
8 Versus Actual Returns on Equity in Regulation of Water and Wastewater Utilities (“Resolution”)  
9 to address these issues. The Resolution passed through the NAWC Water Committee and the  
10 NARUC Board unanimously approved the Resolution on Wednesday, July 24, 2013. The  
11 NARUC Resolution is designed to address the gap between authorized ROE versus actual or  
12 earned ROE. A recent analysis conducted by the NAWC Water Committee showed that as  
13 compared to other regulated utility sectors, significant and widespread discrepancies continue to  
14 be observed between commission authorized ROEs and observed actual ROEs.

15 The NARUC Resolution along with best practices (Interim Rates, Projected vs. Historical  
16 Test Years, Indexes & Pass-Throughs, DSIC, Construction Work in Process, Decoupling, Rate  
17 Consolidation and Mediation or Settlement Procedures) and progressive tariffs and are designed  
18 to improve returns for shareholders and benefit ratepayers by having improved customer service  
19 and slow and steadier increases. The ability to earn an authorized ROE is strongly predicated on  
20 the essential regulatory compact. Fortunately, this compact is provided for under the law, and  
21 regulated water companies are legally afforded the opportunity to earn a fair return in exchange  
22 for providing reliable and quality service.

**Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED CHANGES IN THE COMPANY'S RATE SCHEDULE?**

A. Exhibit "A" to the Application contains the Company's Schedule of Proposed Water and Sewer Charges. The company has proposed to increase its monthly water rates as follows:

Type	Present	Proposed
Base Facilities Charge	\$12.16	\$15.06
Commodity Charge	\$3.89 per 1,000 gal.	\$4.88 per 1,000 gal.
Purchased Water Commodity Charge	\$2.23 per 1,000 gal	\$2.79 per 1,000 gal.

The Company has proposed to increase its monthly sewer charges as follows:

Type	Present	Proposed
Residential and Commercial (per SFE).	\$40.56	\$51.03
Mobile Home	\$28.88	\$36.33
Residential and Commercial (per SFE) Collection Only	\$26.73	\$33.63
Wholesale Service (Midlands Utility, Inc.)	\$18.78 per SFE	\$23.63 per SFE

**Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE THAT THE COMMISSION EMPLOY IN THIS RATE CASE?**

A. The Company proposes that its rates continue to be determined utilizing the rate of return on rate base methodology. The Company has a large rate base and needs to earn a rate of return



1     that is sufficient to obtain the necessary equity and debt capital that a larger utility needs for  
2     sound operation.

3     **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

4     A.     Yes it does.